

Grafenwoehr Law Center—Tax Centers in the three Army communities of the Oberpfalz will open at the end of January. On-post Tax Centers offer free preparation and electronic filing of federal and state income-tax returns for soldiers, civilians, family-members, and contractors.

W-2s will soon be available for soldiers and civilian employees from the Defense Finance and Accounting Service online at www.mypay.dfas.mil. Most banks and investment companies send reports of interest, dividends, and capital gains by the end of January.

Set out below are some important changes to tax law that took effect in 2005, along with a few reminders about rules that trip taxpayers up from year to year.

- **Foreign source income.** American citizens with income from sources outside the United States must report that income on their tax returns, whether they reside inside or outside the U.S. and whether or not they receive a Form W-2 or 1099 from the foreign payer. *Kindergeld* paid to German-American couples who file a joint federal income-tax return is subject to U.S. income tax. Taxpayers who reside outside the U.S. and who do not work for the U.S. government may be able to exclude some or all foreign earned income from taxation, but they must report the income on Form 2555 when they file their tax returns. German spouses of Americans who file joint returns must file Form 1116 rather than Form 2555 if the German spouse works for the U.S. government and is paid through the Defense Cost Office
- **Taxpayer identification numbers.** Filers must provide the taxpayer identification number of each person for whom they claim tax benefits (e.g., personal exemptions, earned income credit, child tax credits, etc.). In most cases, the taxpayer identification number is the person's Social Security number. This applies even if the person is an infant born in 2005. For Americans married to non-resident alien spouses, the Internal Revenue Service will issue an individual taxpayer number (ITN) upon application. It takes about four weeks after applying to receive the ITN.
- **Signing joint return for downrange spouse.** If a spouse is unable to sign the return because he is serving in a combat zone (Iraq or Afghanistan), or a qualified hazardous-duty area (Bosnia and Herzegovina, Croatia, or Macedonia), and the other spouse does not have a power of attorney or other statement, the other spouse can nonetheless sign for the deployed spouse. In such cases, the filing spouse must attach to the return a signed statement explaining that the other spouse is deployed to a combat zone or hazardous-duty area.
- **Joint responsibility for returns.** Married taxpayers may be held responsible, jointly and individually, for the tax and any interest or penalty due on their joint return. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse. This may apply retro-actively on any return filed before a divorce, even if the divorce decree states that the other former spouse will be responsible for any amounts due on previously filed joint returns. In some cases, one spouse may be relieved

of joint liability for tax, interest, and penalties on a joint return for items of the other spouse that were incorrectly reported on the joint return. One must file Form 8857, Request for Innocent Spouse Relief, to request such relief.

- **Personal exemptions.** The amount has been increased to \$3,200 for each exemption to which the taxpayer is entitled.
- **Standard deduction.** The standard deduction for taxpayers who do not itemize deductions on Schedule A, Form 1040, has been increased. The amount depends on the taxpayer's filing status.
- **Social Security and Medicare taxes.** The maximum wages subject to Social Security tax of 6.2% has been increased to \$90,000. All wages without limitation are subject to Medicare tax of 1.45%.
- **Reporting interest and dividends.** Taxpayers who have interest or dividend income of more than \$1,500 are not eligible to use 1040EZ. They must file either Schedule 1 with Form 1040A or Schedule B with Form 1040.
- **Individual retirement arrangements (IRAs).** Married couples filing joint returns can each contribute up to the maximum amount for their IRAs, even if one spouse had little or no income.
- **Earned income credit.** The amount of income to be eligible for this credit has been increased, depending on filing status and number of children claimed. The annual amount of investment income to be eligible for this credit has been increased to \$2700. The taxpayer may now choose to include combat pay in earned income for the purpose of computing this credit.
- **Tax benefits for adoption.** The adoption credit and the maximum exclusion from income of benefits under an employer's adoption-assistance program have been increased to \$10,630.
- **Hope and lifetime learning credits.** The amount of income to be eligible for these credits has been increased.
- **Refunds on late returns.** Taxpayers due a refund who fail to file timely returns must file the return within three years of the due-date (including extensions); otherwise the refund will be forfeited to the government.

For more information, phone Grafenwoehr Tax Office at 475-7777, Vilseck Tax at 476-2289/3316, or Hohenfels Tax Office at 466-2401.